

PRICE NEGOTIATION TO LOWER DRUG PRICES

The new Medicare drug benefit will utilize the power of health plans to negotiate low prices for prescription drugs and save money for both Medicare beneficiaries and the taxpayers. Plans that fail to secure highly competitive prices will not be able to offer attractive premiums to beneficiaries, and will lose market share to plans that are more adept at this type of price negotiation.

Competition among private plans to secure favorable drug pricing has been a successful model for other government programs, including FEHBP. FEHBP leaves price negotiations up to the private plans that provide coverage for all enrollees, including federal retirees. It has worked well for these plans, and we have every reason to believe it will for Medicare as well.

As risk-bearing insurers, the new drug plans and Medicare Advantage plans will have every incentive to drive hard bargains with manufacturers. CMS expects that the private negotiations between plan sponsors and drug manufacturers will achieve comparable or better savings than direct negotiation between the government and manufacturers, as well as coverage options that better reflect beneficiary preferences. This expectation reflects the strong incentives to obtain low prices and pass on the savings to beneficiaries resulting from competition, relevant price and quality information, Medicare oversight, and beneficiary assistance in choosing a drug plan that meets their needs.

Some have argued that the government should intervene more directly to negotiate drug prices, but Medicare's recent history of direct price setting is not a good one. Until recent reforms made by the MMA, Medicare's prices for drugs currently covered under Part B consistently exceeded market averages by significant amounts. We expect that risk-bearing private plans will have strong incentives to negotiate price discounts for such drugs and that the Secretary would not be able to negotiate prices that further reduce federal spending to a significant degree. And since drug plans are exempted from Medicaid's best price rules, they may even be able to negotiate better prices than those paid under Medicaid.

In addition to price negotiation, plans will use a range of formulary design tools and drug utilization management techniques to reduce total spending. Together, we anticipate discounts and cost management savings of 15 percent in 2006, 17 percent in 2007, 19 percent in 2008, 21 percent in 2009 and 23 percent in 2010. The increase over time is due to the market maturing and seniors migrating to more efficient plans.

Comments on the proposed regulations will be accepted until October 4, 2004. Comments should be submitted to the Centers for Medicare & Medicaid Services at www.cms.hhs.gov/regulations/ecomments